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DE RUEHBS #1193/01 2401120
ZNR UUUUU ZZH
P 281120Z AUG 09
FM USEU BRUSSELS
TO RUEHC/SECSTATE WASHDC PRIORITY
RUCPDOC/USDOC WASHDC PRIORITY
RUEATRS/DEPT OF TREASURY WASHDC
INFO RUCNMEM/EU MEMBER STATES COLLECTIVE

UNCLAS SECTION 01 OF 04 BRUSSELS 001193

SENSITIVE
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STATE FOR EUR/ERA - TRANSMIT TO CONGRESSMAN KANJORSKI CHIEF OF STAFF
KAREN FEATHER

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E.O. 12958: N/A
TAGS: ECON PREL ETRD ENRG SENV KHGH KJUS KTFN EUN
SUBJECT: EU SCENESETTER FOR CODEL KANJORSKI

For Chairman Kanjorski from Charge Christopher W. Murray

¶1. (SBU) I would like to welcome you and the members of your Delegation to Brussels. You are arriving at a time when the change in U.S. Administration and the press of global events have pushed U.S.-EU cooperation to new heights across a range of economic and political issues. The EU and its Member States are our most valuable partners in meeting international challenges, whether in Afghanistan, Pakistan or the Middle East, on addressing climate change, or in responding to the global financial crisis. We can leverage new European goodwill toward the U.S. to encourage European coordination with our financial regulatory and supervisory reform efforts, and avoid problematic regulatory divergences that could hamper ongoing U.S.-EU economic progress. Your discussions will focus on financial regulation, but many of the issues discussed below may come up during the extensive conversations you will have, including with Commissioners Almunia and McCreevy and the members of the European Parliament.

OVERVIEW OF U.S.-EU RELATIONS UNDER THE NEW ADMINISTRATION

¶2. The European Union (EU) and its 27 Member States are America's most valuable international partners on matters vital to our national security and global economic and political stability. The Iraq war and rejection of the Kyoto Protocol on climate change chilled relations with the EU during the first term of the Bush Administration, but relations began to improve during the second Bush term. After the Obama Administration came into office, the President called at the April 2009 U.S.-EU Summit in Prague for a profound renewal in transatlantic relations. EU leaders responded enthusiastically, and now actively seek U.S. partnership across the range of political, economic and law enforcement issues. Relationships between the Congress and the European Parliament are likewise strengthening, as the Parliament is likely to gain significant new powers, if the EU's Lisbon Treaty is adopted.

EU INTERNAL POLITICAL DYNAMICS

¶3. (SBU) After 50 years of U.S.-encouraged integration, the EU's 27 member states, including major European powers the UK, France and Germany, must now work in concert on virtually all economic policy issues. While individual member states can lead the EU, they are increasingly constrained from operating independently of it. The EU works through three main institutions. The European Commission, led by the Commission President, is composed of Commissioners from each Member State and over 30 directorates general charged with managing particular policy areas. The Commission acts as the EU executive and proposes legislation. The Council, led by a rotating national Presidency, is composed of Member State heads of State and Ministers and acts to uphold Member State interests in EU legislation and policy development. The European Parliament, composed of 754 members directly elected to it from all Member States, has co-decision authority with Council on the EU budget and on all EU legislation, and engages in oversight of other EU institutions.

¶4. (SBU) The EU is in the midst of a year of transition, with a new Parliament having just begun its five-year term, the Commission set to finish Lisbon; strengthen EU capabilities in foreign policy defense and security spheres; and increase the powers of the European Parliament, especially with respect to law enforcement. Ireland will hold a referendum in October on adopting the treaty. If the Irish referendum passes, the Czech and Polish Presidents will face tremendous pressure to sign the Treaty. The European Commission will likely extend its term three months, until January 2010, to give the Lisbon Treaty time to take effect, so a new Commission would come in under the new treaty.

¶5. (SBU) The new European Parliament has seen major changes in leadership at the top and in key committees. Former Polish Prime Minister Jerzy Buzek is the first leader of a major EU institution to come from a new member state, and may put issues of concern to these countries—such as energy security—higher on the agenda. The European Parliament continues to be dominated by the European People's Party (EPP, right of center, often Christian Democrats) and the Progressive Alliance of Socialists and Democrats (left of center, generally European socialist parties), although smaller

groups such as the liberals and some parties seen as farther to the right increased their relative weight. A major change in this Parliament was the withdrawal of the British Conservatives from the EPP in favor of a smaller, more conservative (and less pro-EU integration) political grouping, reducing the voice of British conservatives on many matters, including financial regulation. Sharon Bowles, the new chair of the ECON committee, with jurisdiction over financial supervisory and regulatory legislation, is a UK liberal with sympathies toward U.S. views on regulatory proposals. Bowles has four heavyweight vice presidents, however, over whom she will need to establish her authority. She will also need to avoid seeming too close to the UK position opposing stronger financial regulation, lest she risk losing credibility within the Parliament.

FOREIGN POLICY AGENDA

¶6. (SBU) The European Union and its Member States are our most capable and influential international partners on foreign policy issues. EU leaders have welcomed the new Administration's many initiatives and shown a renewed willingness to work with us on global challenges, despite some differences over how to reach some shared goals. The U.S.-EU agenda now focuses on bringing stability not only in Europe (such as in the Balkans and the Caucasus), but also in regions such as Afghanistan, the Middle East, Iran, and Africa. The U.S. encourages EU accession for Turkey and appropriate Balkan countries; although accession talks with Turkey continue to stagnate. We work together to promote stability in Bosnia and Herzegovina and assist Kosovo's transition to a politically stable and economically viable country. The U.S. welcomed the EU's new Eastern Partnership Initiative as part of our mutual efforts to promote democracy, stability and prosperity, especially in Ukraine, Georgia and Belarus. We consult on how to encourage Russia to play a constructive role in the region.

¶7. (SBU) The U.S. works increasingly in tandem with the EU as it plays a greater role in promoting global security. In response to Vice President Biden's March request, the EU stood up a sizeable election observer mission in Afghanistan. Despite skeptical public opinion, the EU's commitment to Afghanistan and Pakistan includes billions of dollars in aid, a police training program in Afghanistan, and increasing political and economic engagement with Pakistan. We count on the EU and several member states to support efforts at peace in the Middle East, where the EU is the largest donor of assistance to the Palestinians. The EU has enthusiastically welcomed Senator Mitchell's efforts to restart Israel-Palestinian negotiations, and the Administration's firm stance on settlements. The EU retains the lead in "P-5 plus one" negotiations with Tehran regarding its uranium enrichment activities, and European support is essential to the effectiveness of the UN Security Council Resolutions directed at Iran. Differences over the effectiveness of sanctions continue to be part of the debate. The EU launched its first naval mission late last year to combat piracy off the coast of Somalia and is the largest contributor to the African peace-keeping force in Darfur and to international humanitarian operations.

LAW ENFORCEMENT AND COUNTERTERRORISM COOPERATION

¶8. (SBU) The U.S. and EU recognize that transnational crime and terrorism pose a threat to our shared values of democracy, rule of law, and respect for fundamental rights and freedoms. Our progress is reflected in our agreements on extradition and mutual legal assistance, information on flight passengers, customs cooperation, collaboration in tracking terrorist financing, and EU assistance in facilitating the closure of the Guantanamo Bay detention facility. We have also forged a close operational partnership leading to international agreements and working arrangements with respect to major EU institutions such as Europol, Eurojust, and Frontex. As the EU is currently reviewing its policy and should adopt a new 5-year plan addressing these issues by the end of the Swedish Presidency in December 2009, the USG is working to identify new opportunities to further enhance our daily engagement across the spectrum of law enforcement and counter-terrorism challenges: facilitating mobility in a secure environment, strengthening law enforcement and judicial cooperation, safeguarding fundamental rights and civil liberties, and working together internationally to foster shared principles around the world. Some of these issue, especially with respect to law-enforcement and data privacy, may come up, especially in your meetings with Parliamentarians.

BROAD BILATERAL ECONOMIC AGENDA

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¶9. (SBU) The United States and EU remain the drivers of the global economy, despite media focus on the rise of Asia. We have led the creation of the global rules-based trading system, generate over half of global GDP and have nearly \$3 trillion invested in each other's economies. Transatlantic trade in goods and services - much intra-firm - is near one trillion dollars per year. The stock of U.S. FDI in Ireland alone of \$146 billion was more than double the total U.S. investment stake in Russia, India and China combined (\$71 billion) in 2008. The EU has more invested in California alone than in China. Given these links, the U.S. works with Europe on every conceivable economic issue, in most cases cooperatively rather than in conflict. Transatlantic economic cooperation is most active in the areas of capital markets, trade and combating protectionism, and energy and climate.

¶10. (SBU) The global financial crisis tested U.S.-EU cooperation in several respects. Many in Europe tended to blame the U.S. for the

crisis, and initial U.S. and EU responses were out of sync, due primarily to differences in legal authorities and political timelines. The new U.S. Administration initially focused on stemming our economic threats, including through the \$787 billion stimulus package. The EU, on the other hand, without authority over fiscal policy, promoted a small stimulus, leaving larger efforts to individual Member States. The EU emphasized reform of financial regulation and supervision, because it has competence over legislation in this area and due to the need to act quickly to pass measures before the impending transitions in the European Parliament and Commission. The EU has since implemented a number of measures, including on insurance regulation (Solvency II), deposit guarantees, capital requirements and regulation of credit rating agencies. The EU has proposed legislation on a new supervisory architecture for the EU financial sector, including the creation of a macroprudential Systemic Risk Board, and at microprudential level, three supervisory authorities for banking, securities and insurance. In addition, the EU has also proposed legislation to regulate alternative investment fund managers (AIFM), covering both hedge funds and private equity firms, and have recently proposed additional changes to capital requirements. All of these proposals still need Parliament and Council approval, not likely before the end of 2010.

¶11. (SBU) Recognizing that a better functioning transatlantic market will promote growth at home as well as globally, U.S. and EU leaders in April 2007 signed a Framework to Promote Transatlantic Economic Integration that in turn established a cabinet-level Transatlantic Economic Council (TEC). The TEC aims to identify specific steps to promote regulatory cooperation, capital markets integration, open investment, innovation, intellectual property rights (IPR) protection, and secure trade on a transatlantic basis, even as we work to open markets in third countries. The Transatlantic Legislators', Business and Cotivednda items and push for met thrtstandards, toy anQef. Further, both officials have publicly stated a desire to find solutions for other bilateral trade disagreements. The administration is also working closely with the EU to reach an agreement on a multilateral trade agreement among the 153 members of the World Trade Organization (the so-called "Doha Round"). Despite this positive trade relationship, there are certain persistent trade disagreements that remain: each of us has brought the other to the WTO alleging WTO-inconsistent aircraft subsidies, a case that is on-going; the United States remains concerned over EU restrictions on imports of various food products, including U.S. biotech products and poultry, based on specious food-safety grounds; and the EU is concerned about - and generally raises in meetings with U.S. officials - provisions of the U.S. stimulus package that require government purchases of products of U.S. origin (the so-called "Buy American" provisions). On this latter issue, we have noted to the EU that the provisions are consistent with U.S. international obligations.

¶13. (SBU) Transatlantic cooperation on climate change currently is focused on the UN negotiations, both how the United States and the

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EU coordinate positions, but also how to bring along major emerging economies, notably China and India. Relations generally are good, and though there are differences in approach, we share common goals to move toward low-carbon economies. The Department of Energy leads a cooperative effort under the U.S.-EU Science and Technology Cooperation Agreement to research low-carbon technologies, including biofuels, carbon capture and storage, and solar power. As the EU passed its climate and energy legislative package at the end of last year, designed to fulfill its "20-20-20 in 2020" climate goals (20 percent emissions reduction from 1990, 20 percent use of renewable energy, and 20 percent improvement in energy efficiency in 2020), there is strong interest in the Waxman-Markey bill and the current discussions in the Senate. U.S. Special Envoy for Eurasian Energy Ambassador Morningstar recently proposed the creation of a U.S.-EU Energy Council with the intent of bringing high-level attention to our energy cooperation, notably energy security, energy policy, and renewable energy.

¶14. (SBU) We look forward to your visit and the extensive discussions you will have.

MURRAY